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Gorbachev's Strategy for Managing the Defense Burden

An Intelligence Assessment

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Gorbachev's Strategy for Managing the Defense Burden

An Intelligence Assessment

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Gorbachev's Strategy for Managing the Defense Burden

Key Judgments

*Information available
as of 20 March 1989
was used in this report.*

Four years into his tenure, General Secretary Gorbachev's efforts to reduce the USSR's defense burden are beginning to produce changes in Soviet national security policy that could provide substantial defense savings over the next few years. The elimination of intermediate-range and shorter range missiles and equipment under the INF Treaty, the withdrawal of Soviet troops from Afghanistan, and the cutbacks in manpower and weapons announced at the United Nations in December 1988 are likely by 1991 to yield annual savings equivalent to roughly 6 percent of estimated Soviet defense spending in 1988. Moreover, Gorbachev's pledge to reduce defense spending by 14.2 percent, including a 19.5-percent cut in the production of weapons and equipment, implies that even more substantial moves—at least in expenditure terms—are in store.

The announced reductions have their roots in steps Gorbachev took early in his administration to find less costly means of meeting Soviet security requirements. His strategy for holding down the defense burden included:

- Strengthening party control over the military to make it more responsive to his economic priorities.
- Dampening demand for defense spending by using arms control and diplomacy to reduce external threats.
- Broadening the Soviet concept of national security to give greater weight to its economic and political components.

Although he concomitantly called on defense industries to make a larger contribution to the civil economy, Gorbachev did not push them hard and did not cut defense spending. He did agree, however, to the INF Treaty and decided to withdraw Soviet forces from Afghanistan—actions that would eventually produce modest defense savings and that were intended to support his efforts to implement a less confrontational foreign policy.

During 1988, however, the pressure of accumulating economic problems and imminent planning milestones brought the issue of defense spending to a head. For the second year in a row, economic performance was little better than it had been under Gorbachev's predecessors, and rank-and-file skepticism of the benefits from *perestroika* was on the rise. To retain worker support and to help overcome social malaise, Moscow promised to direct additional resources quickly to the consumer sector. Meanwhile, as the regime began to make key decisions on how much to spend on defense, investment, and consumption during the 13th Five-Year Plan (1991-95), Gorbachev engineered a leadership shakeup that reduced resistance to military plans that conform to his economic priorities.

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We are unsure of the exact composition of the additional cuts that the Soviets plan to make to reduce defense outlays to levels commensurate with Gorbachev's announced goals of reducing total defense spending by 14.2 percent and procurement by 19.5 percent. While some additional savings could be realized by reducing the size and scope of training exercises and improving efficiency in weapons production and in operations and maintenance practices, cuts in weapons procurement and military research, development, testing, and engineering (RDT&E) are likely:

- Statements by Soviet officials suggest that additional reductions will be designed to bring Soviet force structure more in line with Moscow's new "defensive" doctrine. They have stated, for example, that the number of tanks in motorized rifle divisions will be reduced, and they have hinted that some cutbacks in naval programs may be forthcoming. Procurement savings could be achieved by reducing the size of the forces that need to be modernized or by reducing the rate of force modernization.
- Statements by Soviet officials suggest that military RDT&E also will be cut. Soviet leaders have criticized military RDT&E for being too costly, too conservative, and too diffuse, and have hinted that it may need to be restructured and consolidated.

Gorbachev's moves to reduce defense spending have the potential to give a much-needed boost to the civil economy. A 14-percent cut in defense spending is nearly equivalent to Soviet investment in the critical machine-building sector in 1988, about half the amount invested in housing, and about three times the level of investment in the consumer goods sector. Reducing weapons procurement and military R&D would free up defense production capacity and curb the military's demand for high-quality metals, computers, and microelectronics needed in the civil economy. Indeed, according to the head of the Military-Industrial Commission, 250 defense plants and 200 design bureaus currently involved in military-related research already have been enlisted in Gorbachev's effort to modernize the food-processing industry. In some cases, defense plants and their skilled workers could be shifted with minimal retooling and retraining to civil R&D and production. Reducing defense outlays also could contribute to the regime's efforts to reduce the growing Soviet state budget deficit and ease inflationary pressures.

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[] told [] that the defense spending reductions would be made over the period 1989-90. If the Soviets meet this two-year timetable for implementing the recent initiatives, the reductions will be complete by January 1991, when the 13th Five-Year Plan begins. The full impact of the spending cuts will not be felt in the economy, however, until later in the five-year period. In particular, the conversion of defense plants to civilian purposes will take time to complete. Achieving sustained economic growth, moreover, will require more than a one-time infusion of resources from the defense to the civil sector. For these reasons, and because Soviet economic problems are likely to persist, Moscow may make further defense cuts during the 13th Five-Year Plan. Its willingness to do so, however, will be conditioned by:

- The strength of the leadership's commitment—in the face of a mounting budget deficit and a stagnating economy—to modernizing civil industry.
- The impact of the released resources on economic performance.
- The extent to which reductions eventually are reciprocated by the West.
- The leadership's perception of the prospects for improving relations with the United States, Western Europe, and China.
- Gorbachev's overall political health and the strength of leadership consensus in support of his national security policies.

Monitoring whether and how the Soviet Union reduces its forces and defense expenditures over the next two years will be critical to understanding Gorbachev's defense strategy and economic priorities. We are likely to receive early signs of any large cuts in weapon procurement or major changes in military activity. Given the political capital the Soviets hope to gain, we expect them to provide considerable information about force reductions and conversion of military plants to civilian use. In addition, reporting from a variety of sources should allow us to monitor major military force reductions and restructuring and permit us to detect the conversion of large weapons manufacturing facilities once new civil goods have entered production.

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Scope Note

This Intelligence Assessment considers the steps Moscow is taking to reduce the defense burden and assesses their potential economic impact. Because the Soviets have provided very few details about how they intend to implement Gorbachev's pledged reductions in defense outlays, this analysis is necessarily speculative concerning specific cutbacks in forces and weapons programs that may be forthcoming. The options considered, however, are consistent with public and private statements made by Soviet officials and with recent trends in Soviet military doctrine, arms control policy, and national security policy generally. Another paper, *USSR: Trading Guns for Butter* (DI Intelligence Assessment SOV 89-10008X, January 1989, Secret), discusses in detail the Soviets' resource dilemma and Gorbachev's evolving strategy for enlisting additional defense industry support for his civil programs.

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Gorbachev's Strategy for Managing the Defense Burden

The Announced Unilateral Force Reductions

In a speech at the United Nations on 7 December 1988, President Gorbachev announced major unilateral cuts in Soviet military manpower and equipment to be carried out during 1989 and 1990. As detailed by the Soviets, three categories of reductions are involved:

- *Reductions in Central Europe.* A total of 50,000 men and 5,300 tanks are to be withdrawn from Soviet forces in Czechoslovakia, East Germany, and Hungary. As part of this reduction, six Soviet tank divisions currently stationed in these countries are to be withdrawn and eventually disbanded, and other units, including "assault landing" (presumably air assault) and "assault crossing" (presumably river crossing) troops, are to be removed. The remaining units are to be restructured along more defensive lines.
- *Reductions in the Atlantic-to-the-Urals Zone.* A total of 10,000 tanks, 8,500 artillery systems, and 800 combat aircraft are to be eliminated from the Atlantic-to-the-Urals (ATTU) zone. Of the 10,000 tanks being eliminated, 5,000 will be destroyed and the rest will be converted to machinery for civilian use and training vehicles.
- *Forcewide reductions.* Overall Soviet military manpower is to be reduced by 500,000. As part of these cuts, Gorbachev promised reductions in forces stationed in Soviet Asia and the withdrawal of 75 percent of Soviet forces stationed in Mongolia.

We believe Gorbachev's motives in advancing this initiative were political and economic. By promising to withdraw such a large number of tanks as well as assault units—forces that have been explicitly identified by NATO as inherently offensive—Gorbachev is attempting to remove the basis for Western claims that Soviet forces in Central Europe are positioned to launch a short-warning attack against NATO. He

almost certainly hopes that the announced force reductions will reduce Western support for NATO defense modernization and pressure NATO member states to make multilateral, or even unilateral, force reductions of their own. Reductions planned for forces in the Far East are intended to support Soviet efforts to improve relations with China.

If Moscow had sought only political gains, however, the force reductions announced for Central Europe and along the Sino-Soviet border alone probably would have been sufficient. Gorbachev's additional commitments to reductions in the ATTU zone indicate that economic considerations were probably paramount. Indeed, Col. Gen. Nikolay Chervov, head of the General Staff's Treaty and Legal Department, claimed that reducing defense spending was "one of the aims of the reduction."

In January 1989, moreover, Gorbachev himself publicly linked reductions in Soviet military forces to concern for the economy. In a speech on 6 January, he stated that the country's economic situation was "so acute that we must also review expenditures on defense," and he added that a preliminary study had concluded that cuts could be made without weakening Soviet security. Two weeks later, in an address to the Trilateral Commission, Gorbachev announced that the "military budget" would be reduced by 14.2 percent and the production of arms and equipment by 19.5 percent. Meanwhile, Soviet defense-industrial managers claimed that a number of military programs have already been cut to free production capacity and skilled labor for use in civil production.

Gorbachev is apparently willing to pay a significant military price to achieve his economic and political objectives. The unilateral reductions announced at the UN, if carried out, will significantly degrade Soviet offensive capabilities (see inset). In addition, a

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Impact of the Reductions on Offensive Capabilities

The withdrawal of 5,300 tanks from Central Europe—half of Soviet tank strength there—would reduce Warsaw Pact superiority in tanks in this area well below the 2-to-1 margin that, according to Soviet doctrine, is the minimum required to conduct successful offensive operations. Indeed, if only comparable modern tanks are considered, the tank ratio in this region could be cut to about 1 to 1. Moreover, the 5,300-tank reduction in Central Europe cannot be achieved without deep cuts in operational units and major restructuring of those Soviet units remaining in Central Europe.

Implications for Short-Warning Attack. Soviet forces in Central Europe, even as currently deployed, are not capable of mounting a sustained offensive operation from a peacetime posture. Soviet divisions stationed there are manned at only 80 to 85 percent of their planned wartime strength, and rear services units are at much lower strength. We estimate that two to three weeks would be required to bring these forces to full strength, conduct unit training, and prepare the front logistic systems to support combat operations. After the reductions in tanks and assault units announced by Gorbachev are made, Soviet military planners would regard the forces remaining in Central Europe as unable to conduct even a limited short-warning attack successfully.

Implications for Theater Offensive Capabilities. We estimate that after the Soviets have completed the announced force reductions in the ATTU zone—particularly the 50-percent tank cut in Central Europe—the bulk of two, rather than one, of the four fronts we believe the Soviets plan to use in "counter-offensive" operations against NATO would have to be moved forward from within the Soviet Union prior to the onset of offensive operations. This doubling of the requirement for reinforcements from the western USSR would increase preparation time beyond the 30 or more days that we currently estimate it would take the Soviets to prepare their forces for a theater offensive. Moreover, the need to draw on the strategic reserve would constrain Soviet capability to conduct operations in several theaters simultaneously

20-percent cut in production—if translated into an equivalent cut in overall procurement spending not matched by cuts in force levels—could substantially retard Soviet force modernization by slowing the rate at which new weapons become available to replace existing stocks.

Laying the Groundwork

The recent announcements of impending defense cuts are part of a larger pattern of changes Gorbachev has made in Soviet national security policy to reduce the burden of defense on the economy. Although only now beginning to produce concrete results, these changes have their roots in the early months of the Gorbachev regime.

Gorbachev's initial actions in the defense policy sphere were directed toward strengthening party control over the military and communicating to it his economic priorities. He began by reducing the military's social and political status, lowering its leaders' public profile, and permitting criticism of past military policies. He demonstrated his determination to hold the military accountable for their actions by removing Defense Minister Sergey Sokolov and other high-ranking military officials and promoting people whom he believed to be more competent and attuned to his policies.

Gorbachev also launched an ambitious arms control and foreign policy agenda intended to meet Soviet security requirements.¹ According to

Moscow expects its foreign policy to contribute to the country's economic goals directly by achieving arms reduction agreements, and indirectly by promoting an international environment that will allow the Soviets to redirect resources from defense to the civilian economy without damaging the USSR's security. Accordingly, Gorbachev tried, through political means, to reduce the external threats he faced in order to marshal internal resources and political support for

¹ See DI Intelligence Assessment SOV 89-10014X, February 1989, *Gorbachev's Foreign Policy*.

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his domestic economic programs. The Soviets' diplomatic and propaganda campaign to undermine Western support for the US Strategic Defense Initiative, for example, was, and still is, motivated in part by their concern over the high costs they would incur in countering advanced US strategic defenses. Similarly, Soviet spokesmen have referred repeatedly to the economic as well as strategic benefits that the INF Treaty will yield

provide a theoretical basis for scaling back weapon programs, he promoted the concepts of "reasonable sufficiency" and "defensive doctrine"—which were officially endorsed in the Warsaw Pact doctrine published in May 1987 (see inset). Moreover, Gorbachev encouraged the surfacing of new ideas by allowing civilian advisers and intellectuals to discuss national security issues that previously had been left almost exclusively to the military.²

In its effort to attune Soviet foreign policy to Gorbachev's domestic priorities, Moscow reassessed its regional foreign policy objectives and military aid programs, giving increased emphasis to the economic implications of foreign policy commitments. Discussing Sino-Soviet relations, for example, Shevardnadze, at a Ministry of Foreign Affairs (MFA) conference on 25 July 1988, asked top MFA officials to consider "what, from the economic viewpoint, this confrontation has cost the two great socialist powers." Shevardnadze also has publicly questioned the wisdom of past Soviet commitments to regimes with little popular support or independent economic viability. Andrey Kozyrev, deputy chief of the Foreign Ministry's International Organizations Administration, commented that in the past the Soviet Union was too quick to support regimes simply on the basis of their anti-imperialist rhetoric, without regard for their political, economic, and military policies. All too often, according to Kozyrev, these regimes were drawn into "protracted and sanguinary conflicts" that the Soviet Union found itself bankrolling. Moreover, Kozyrev noted, the Soviet Union's "direct and indirect involvement in regional conflicts leads to colossal losses by increasing general international tension, justifying the arms race, and hindering the establishment of mutually advantageous ties to the West." Moscow's announcement in February 1988 that it would withdraw its troops from Afghanistan by 15 February 1989 reflected this new assessment

While laying the groundwork for changes in national security policies, the political leadership tasked defense industries to give additional support to the civil economy by increasing production of high-quality consumer goods, helping to retool the food-processing and light industry sectors, and transferring managerial and technological expertise to civil industries.³ Initially, however, when the necessary productivity gains were not achieved or when the defense industries' response seemed halfhearted, the leadership criticized individual managers but did not make the sustained, concerted effort required to force defense industries to meet their new civil production assignments

The steps Gorbachev took did not include reductions in military outlays. The armed forces leadership responded to Gorbachev's exhortations to save by urging units to show greater efficiency and accountability—in line with Gorbachev's "human factors" campaign—while apparently sparing major weapon procurement programs from cutbacks. As in the civil sector, however, reliance on "human factors" alone proved inadequate to meet Gorbachev's objectives. Moreover, the difficulty of defining the new doctrinal concepts of "defense sufficiency" and "defensive defense" gave opponents of restructuring ample opportunity to inhibit or delay the implementation of new approaches to weapon procurement and force structure

Gorbachev has also given increased emphasis to the economic, social, and political dimensions of national security, contending that more weapons do not necessarily mean more security, especially if building them harms the economy. He stressed that military programs place a great burden on the economy and can provoke enormously costly arms competition. To

² See D1 Intelligence Assessment SOV 89-10004X [C]
³ January 1989, *The Changing Role of Civilian Advisers in Shaping Soviet National Security Policy*.
⁴ See D1 Intelligence Assessment SOV 89-10008X [C]
⁵ January 1989, *USSR: Trading Guns for Butter*.

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Reasonable Sufficiency and Defensive Doctrine

In seeking to balance the needs of the civilian and military sectors of the economy, Gorbachev has claimed that the Soviet Union will not deploy military forces beyond what is required for a "reasonable, sufficient defense." The Warsaw Pact Political Consultative Committee (PCC) endorsed this concept in the declaration on military doctrine issued in May 1987.

The PCC also declared that Warsaw Pact doctrine is "strictly defensive." Soviet spokesmen claim that Soviet doctrine has always been defensive in nature, but that whereas doctrine used to be defined as a system of views on the preparation for and waging of war, the new doctrine holds that the prevention of war is its main objective. The Soviets claim that war can best be prevented by reducing the armed forces of belligerent states to a level at which each side can defend itself against attack, but neither side "would have the means for a sudden attack on the other side, for starting offensive operations in general."

Soviet military leaders have admitted that bringing Soviet forces into line with the principles of reasonable sufficiency and defensive defense will require force restructuring, and the reductions and restructuring announced by Gorbachev at the UN appear to be the initial concrete steps in this direction. Nevertheless, there appear to be disagreements between military and civilian specialists over the extent to which unilateral reductions should be made, the importance of maintaining parity with the West, and the role of offensive capabilities within a defensive force structure.

Gorbachev's unwillingness to dictate unilateral cuts in specific military programs during his first three years in office was probably due to a combination of factors. He and his advisers may have hoped that the industrial modernization program and the emphasis on "human factors" would yield quick productivity gains that would make it possible to increase economic growth and consumption without cutting into defense.

He may also have believed that, because the defense industry is generally better equipped than the civil sector, it would be able, through improved productivity, to contribute to civil modernization without slowing defense output. In addition, Gorbachev may have hoped that his vigorous foreign policy initiatives would quickly lead to arms reductions agreements that would obviate the need for unilateral cuts. Probably most important, however, was that, as he was consolidating his power and pushing his economic agenda, Gorbachev may have feared that cutting defense spending would undermine support for his domestic and foreign policies, and he may have lacked the political clout needed to obtain leadership agreement to bold force reductions.

1988: A Year of Decision

The combination of political and economic considerations that had originally encouraged the leadership to adopt a cautious approach to defense spending changed during 1988 as the pressure of accumulating economic problems and imminent planning milestones brought the issue of defense spending to a head. Gorbachev appears to have concluded that his programs stood little chance of success without major shifts in the allocation of resources, including those devoted to defense. In late 1988 he engineered a series of high-level personnel changes and institutional reforms that strengthened his political control and enabled him to move quickly to implement his new resource allocation policies.

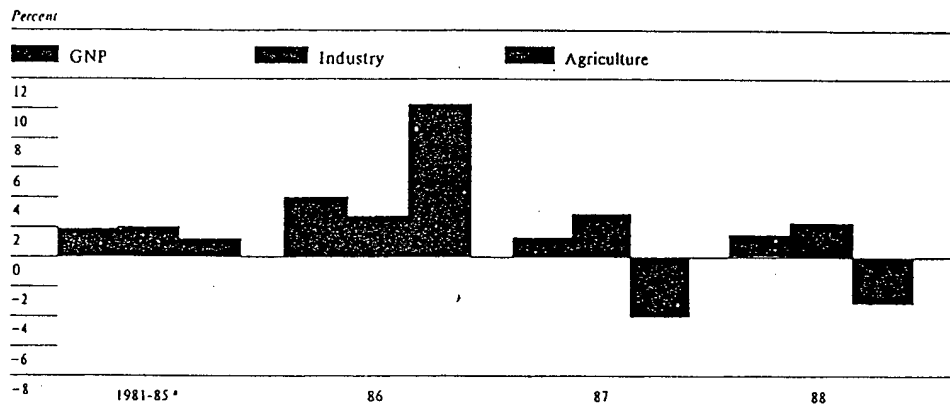
An Economy in Disarray

Continuing economic sluggishness almost four years into the industrial modernization program dashed the leadership's hopes that economic expansion would make it possible to improve consumer welfare and retool civil industry without reallocating resources from defense (see figure 1).⁴ GNP grew by only about 1.5 percent in 1987 and 1988, an even slower growth

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Figure 1
USSR: Economic Growth, 1981-88



rate than that achieved during the early 1980s, the years that Gorbachev has criticized as "the period of stagnation." The rate of growth of industrial output, including the critical machine-building sector, was insufficient to support current regime modernization goals, and farm output, although better than the 1981-85 average, still fell well below that needed to meet steadily growing consumer demand. Meanwhile, rising defense spending helped create a growing budget deficit that fueled inflationary pressures.

Broad public dissatisfaction with the economic situation also put growing pressure on the leadership to show progress in meeting the regime's economic goals. Workers had grown impatient with the failure of the industrial modernization program to yield tangible improvements in living standards. To retain worker support for *perestroika*, the leadership began to promise to direct additional resources to the consumer sector. Given slow productivity growth, the leadership appears to have recognized that increased allocations to consumption were necessary and that they could best be accomplished by diverting resources from investment and defense.

Planning Exigencies

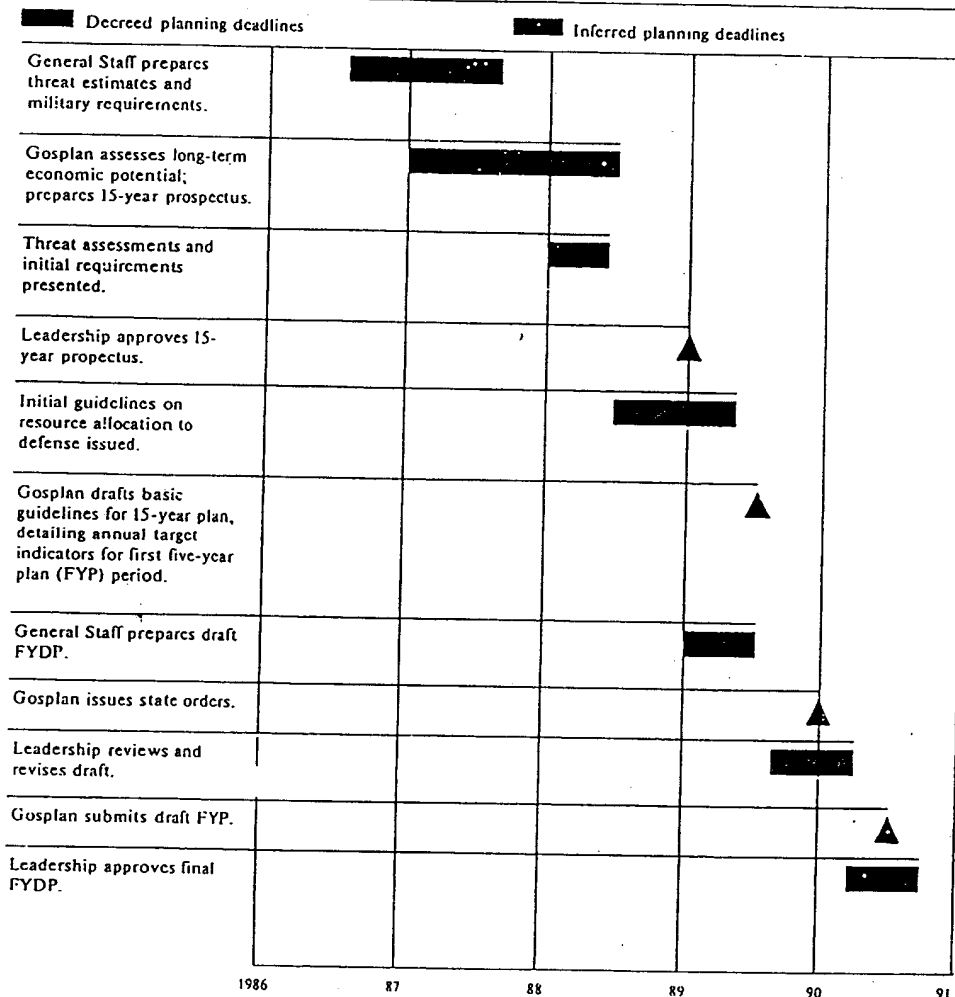
The economic planning process also brought the issue of resource allocation to the fore.¹ To meet long-term planning deadlines decreed by the party's Central Committee and the Council of Ministers, in 1988 the General Staff had to present to the political leadership a threat assessment for the 13th Five-Year Plan (FYP) period (1991-95) and an estimate of the forces required to counter that threat (see figure 2). At about the same time, the State Planning Committee (Gosplan) was required to provide a long-term estimate of resource availability and economic potential. On the basis of this information, the leadership during the latter half of 1988 almost certainly provided initial guidelines to the military on the amount of resources to be allocated to defense during the 13th FYP. The General Staff proceeds from these guidelines to draft a five-year defense plan, the defense component of the overall five-year plan for the economy.

¹ See DI Research Paper SOV 88-10075X, "October 1988, Preparing the Soviet Five-Year Defense Plan: Process, Participants, and Milestones."

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Figure 2
USSR: Milestones of the Five-Year
Defense Plan (FYDP) Planning Cycle



Note: Deceed deadlines are established by joint
CPSU Central Committee/LISSR Council of Ministers resolution.

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As the General Staff prepared its threat assessments and budget requests, Gorbachev apparently increased pressure on the military and political leadership to implement his notions of defense sufficiency. In September 1987 ~~C~~

~~I~~ told ~~C~~ that the Soviets were reviewing military force structure and strategy with a view toward both improving Soviet defenses and finding economies that might release resources for civilian needs.

Even stronger evidence of Gorbachev's intention to ensure that Soviet military plans for the 13th FYP conform to his economic priorities came at the 19th Party Conference in July 1988. The theses published in preparation for the conference stated that "the direct threat of a war involving the major powers has diminished." Vadim Zagladin, who at the time was a section chief in the Central Committee's International Department, stated that this was probably the first time in several years that the CPSU had viewed the threat of war as diminishing, and he noted that the conclusion was "of an extremely crucial nature."

In addition, Gorbachev charged in his conference speech that the expenditure of "huge sums" on weapons and the neglect of political means had weakened both the economy and national security. "As a result," he said, "we allowed ourselves to be drawn into the arms race, which could not fail to have an effect on the country's socioeconomic development and on its international position." In line with this critique, the conference resolutions mandated that future improvements in military capability should be based on qualitative rather than quantitative factors. Following the conference, then Chief of the General Staff Sergey Akhromeyev stated, "With regard to arms and equipment, this means that the troops and fleets will probably receive less."

In the summer of 1988, especially following the 19th Party Conference, pressure on the military mounted to translate the leadership's priorities into concrete plans. Indeed, Akhromeyev later stated that the preparatory work on the decision to reduce the armed forces by 500,000 personnel began in the summer of 1988, and that the General Staff had participated in

that work "right from the start." The idea of large force reductions appears to have met considerable resistance within the General Staff, however. In August 1988, for example, Akhromeyev complained that a number of General Staff directorates were tackling the problem of restructuring slowly and timidly. These criticisms were repeated again by high-level officers in a December 1988 General Staff party conference.

The leadership also stepped up pressure on the defense industries to help the civil economy. Statements by defense-industrial managers in late 1988 indicated that they were told to meet their civil production goals even if it required canceling some military programs, and Premier Ryzhkov warned defense-industrial managers in a televised interview in October 1988 that anyone who failed to give due attention to the defense industries' new responsibilities in the civil economic sector was "making a big mistake."

Political Consolidation

The leadership shakeup that Gorbachev engineered at the end of September 1988 may well have been the final step required to implement a major change in resource allocation policy. Andrey Gromyko and Mikhail Solomentsev, conservative holdovers from the Brezhnev leadership, were removed from the Politburo. In addition, the September 1988 Central Committee plenum established six party commissions charged with reviewing and formulating major policy issues, and Gorbachev managed to put political allies in charge of four of them: Aleksandr Yakovlev was named head of the International Commission; Vadim Medvedev, the Ideology Commission; Georgiy Razumovskiy, the Cadres Commission; and Nikolay Slyunkov, the Economics Commission. The appointments of Medvedev, who was also promoted to full Politburo membership, and Yakovlev, in particular, strengthened the hold of Gorbachev allies on foreign and national security policies. Conservative Yegor Ligachev, who previously had been in charge of both ideology and cadres, was moved to chair the Agriculture Commission—an important position, but one that may reduce his ability to oppose Gorbachev's foreign

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and defense policies. Viktor Chebrikov was replaced as head of the KGB and was made chairman of the Legal Commission. Gromyko and Ligachev probably also lost their positions on the Defense Council, the top deliberative body charged with providing the Politburo recommendations on national security issues. At the same time, the elevation of Aleksandra Biryukova to candidate Politburo membership gave consumers a stronger voice in the leadership.

Reevaluation of Arms Control

Although Gorbachev achieved some success in advancing his arms control agenda—most notably by concluding the INF Treaty in December 1987—in 1988 there remained major differences between the United States and the Soviet Union in the START and Defense and Space negotiations, and there appeared to be virtually no prospect for conclusion of a conventional arms reduction agreement in the near future. Faced with urgent economic problems, the Gorbachev regime appears to have decided that arms control could not produce the magnitude of savings needed, at least not in a timely fashion. As negotiations bogged down, the leadership began to consider making large unilateral reductions to allow near-term cuts in defense outlays while simultaneously increasing pressure on Western governments to accelerate progress in arms reduction negotiations, or to reciprocate with unilateral cuts of their own.

This idea was not entirely new, but it was highly controversial and entailed considerable political risk. The use of unilateral restraint to spur progress in arms control had been tried on a limited scale from 6 August 1985 to 25 February 1987, when Moscow had observed a unilateral moratorium on nuclear testing in an effort to persuade the United States to follow suit and to stimulate progress toward a comprehensive nuclear test ban agreement. Despite Moscow's failure to gain US agreement to halt nuclear testing, some civilian specialists began to argue in late 1987 that unilateral reductions should be given greater emphasis in Soviet national security policy, both to maintain the diplomatic initiative and to prevent what they considered to be US intransigence from derailing Soviet efforts to reduce the defense burden. Defense Minister Dmitry Yazov and Akhromeyev, in contrast, argued against unilateral reductions.

As economic pressures mounted, Gorbachev and his allies apparently became increasingly ready to take the views of their civilian strategic advisers on board. Perhaps not until the leadership shakeup in September 1988, however, was Gorbachev able to gain consensus within the Politburo and Defense Council for the large unilateral force cuts and spending reductions announced in December 1988 and January 1989.

Sizing the Promised Reductions

The December 1988 announcement of unilateral reductions in manpower, tanks, artillery, and combat aircraft was the most dramatic reflection of the new course. Still, the January 1989 announcement that defense spending and weapons production would be reduced by 14.2 percent and 19.5 percent, respectively, implied that even bolder actions were in the offing.

Gorbachev did not indicate whether the planned 14.2-percent reduction in the "defense budget" referred to total defense expenditures or only to the officially published defense budget (totaling about 20 billion rubles in 1987), which includes only personnel and some operating costs. Foreign Ministry spokesman Gerasimov subsequently stated, however, that the figure referred to "overall military spending," and

that the 14.2-percent reduction included the 19.5-percent cutback in weapons production—again indicating that Gorbachev was talking about a 14-percent reduction in total defense expenditures.

also referred to the 19.5-percent reduction in weapon production that Gorbachev promised as a 19.5-percent cut in the "military production budget," suggesting that overall procurement spending—not just physical quantities—would be cut by that amount. In addition, Zagladin said the spending reductions would be made by 1 January 1991—the same timetable that the Soviets gave for the force reductions announced at the UN.

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Although Soviet officials have provided some information on the spending categories to which the announced spending reductions will apply, they have yet to say how large the spending reductions will be in ruble terms or to provide details on the size and composition of their total outlays for defense from which this information could be derived. We are uncertain, for example, whether Gorbachev was referring to a reduction from the current level of expenditures or from planned future spending levels, and whether the promised reductions include or exclude the effects of price changes.

To estimate the size of defense spending cutbacks that could be involved, and because the Soviets have yet to release data on their total defense outlays or procurement expenditures, we have used our estimate of Soviet defense expenditures in 1988—about 124 billion rubles, expressed in constant 1982 prices—as the base for calculating the announced spending cuts.⁴ A reduction of 14.2 percent of this total would yield savings of about 18 billion rubles, or about \$40 billion if the same military goods and services were purchased in the United States. A 19.5-percent reduction in our estimate of Soviet weapon procurement expenditures would equal 11 billion rubles, or about \$16 billion if replicated in the United States. If Gorbachev was referring to reductions from planned future defense spending levels, the cutbacks would probably be slightly larger, because we project that Soviet defense spending would increase by an average of about 2 percent per year during 1989-90 in the absence of a policy decision to reduce defense outlays.

We believe that Moscow's pledge to cut defense spending by 14.2 percent reflects in part savings the Soviets expect to realize from commitments they have already made—the INF Treaty, the withdrawal from Afghanistan, and the unilateral reductions announced at the United Nations (see inset):

- The Soviets have announced that the *INF Treaty* allowed them to save 300 million rubles in 1988. We estimate, however, that the *INF Treaty* could even-

⁴ The Soviets introduced their latest price reform in 1982. We express our estimates of Soviet defense spending in constant 1982 rubles to provide a basis for comparing the amount of resources allocated to defense over time without regard to the effects of general price changes.

Methodology for Estimating Savings

We estimated the potential savings from specific force reductions by using the direct-costing approach employed in producing CIA's estimates of Soviet defense expenditures. The costs of some activities—the upkeep of the 500,000 troops to be cut from the force, for example—are calculated directly in rubles using known pay factors or prices. O&M savings are calculated on the basis of our estimates of the number of specific types of tanks, artillery, aircraft, and other equipment that are to be withdrawn or eliminated and on our estimates of the activity levels typical for such forces.

Estimated procurement savings reflect our assessment of the quantity of weapons involved and their costs. Estimated procurement savings from the INF Treaty were based on the numbers and costs of the SS-20-class, SS-12-class, and SS-23-class missiles that we project the Soviets would have produced in the absence of a treaty. Procurement savings from the withdrawal from Afghanistan are based on our estimates of the replacement costs of weapons and equipment lost in the conflict. To estimate the procurement savings from the reductions announced at the UN, we assumed the Soviets would continue to modernize remaining units at about the same pace at which they are currently modernizing. Consistent with this assumption, we further assumed that the force reductions announced will be accompanied by proportionate reductions in procurement of those types of systems. In all cases, weapon system costs are first estimated in US dollars and then converted to constant 1982 ruble prices using information on the relationship of dollar prices to ruble prices for a sample of similar programs. Expressing our estimates in constant ruble terms allows us to compare potential defense spending reductions with our estimates of past and projected Soviet defense outlays.

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tually save the Soviets about 1-2 billion rubles per year—or roughly 1 to 2 percent of their 1988 defense spending. These savings will come in part from reductions in outlays for personnel and for operations and maintenance (O&M) as intermediate-range and shorter range missiles are eliminated, but we estimate that most will derive from the avoidance of the cost of producing additional missiles of this class.

- We estimate that the *withdrawal from Afghanistan* could save another 2 billion rubles per year. A little more than half of these savings will result from lower procurement requirements as the need to replace ammunition expended and weapons and equipment destroyed in the war is eliminated.
- We estimate that the *reductions Gorbachev announced at the UN* could result in savings of about 3-4 billion rubles per year, or roughly 3 percent of Soviet defense spending in 1988. About half of these savings would come from reduced personnel and O&M costs; the rest from procurement cutbacks that seem likely as a direct result of specific cutbacks in stocks of tanks, aircraft, and artillery announced by Gorbachev.

Our analysis suggests, however, that the savings anticipated from the specific military force reductions announced at the UN as well as from the INF Treaty and the withdrawal from Afghanistan would account for less than half the spending cuts that Gorbachev's statement to the Trilateral Commission implied (see figure 3). We therefore believe the Soviets have decided to take major additional steps, not yet publicly defined, as part of the process that culminated in Gorbachev's force and spending reduction pledges.

Likely Additional Reductions

Additional cuts in defense spending could come in a variety of areas, including reductions in military operating rates (like the reduction in out-of-area naval operations observed since 1986 or the limitations in the scope of exercises the Soviets claim to have implemented in the Far East) and savings from improved efficiency in the use of fuel and other

supplies. To achieve substantial additional savings, however, cuts would probably have to be made in military RDT&E and procurement (see figure 4). In addition, the Soviets may be considering reductions in their military aid programs (see inset).

Arms Control Savings

The Soviets probably hope that some of the additional spending cuts can be implemented under or in anticipation of future East-West arms reduction agreements, although they recognize that agreements may be difficult to conclude before the January 1991 deadline they have set for implementing the reductions. We estimate, for example, that a future START agreement incorporating current Soviet proposals could save the Soviets between 1 and 4 billion rubles annually, depending on the pace at which they would have modernized their forces in the absence of an agreement and on the structure of the forces they would deploy under a START regime.⁷ About 60 percent of these savings would come from reduced procurement. START savings of 2.5 billion rubles—the midpoint of our estimated range—could account for about one-seventh of the total spending and procurement reductions Gorbachev promised.

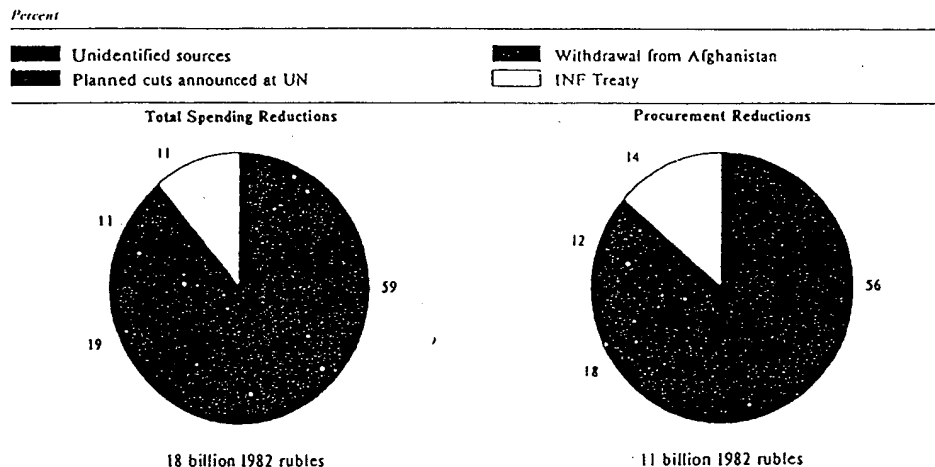
Savings from a future conventional arms reduction agreement would probably be even greater than those resulting from strategic arms reductions. Strategic offensive and defensive forces account for only about 20 to 25 percent of Soviet investment and operating expenditures, while general purpose forces account for about 50 percent of these expenditures (see figure 5). The Soviets' conventional forces thus provide a large base from which to make potential reductions.⁸

⁷ Shevardnadze's 6 March 1989 speech at the opening of the Vienna negotiations on conventional force reductions called for a three-stage reduction. During the first stage, which would last two to three years, NATO and the Warsaw Pact would reduce forces to levels 10 to 15 percent below the lowest level currently possessed by either side. In the second phase, troops and weapons would be reduced by an additional 25 percent. In the third phase, the sides would restructure their forces to give them a "purely defensive character."

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Figure 3
USSR: Estimated Shares of Military Spending Reductions



Nevertheless, Moscow's decision to reduce forces unilaterally even while the conventional force negotiations are under way probably reflects the regime's perception that it could not wait for arms control agreements to be reached before tackling the difficult resource trade-offs required to break the pattern of economic stagnation.

Further Unilateral Reductions

The Soviets may be hoping to achieve small additional savings in O&M expenditures by making cuts in their force structure beyond those already announced. To achieve the promised defense spending reductions, however, they will almost certainly have to make additional cuts in both weapon procurement and military R&D, which together account for two-thirds of total Soviet defense outlays. Although we cannot confidently project what specific programs or forces the Soviets intend to scale back, statements by Soviet military and Foreign Ministry officials also indicate that cuts in both areas are likely.

Force Structure. Even after the announced reductions and force restructuring are implemented, the Soviets will retain large armor and artillery forces, and there are indications that they may be considering ground forces reductions beyond those already announced in Gorbachev's UN speech.

Told a group of journalists from socialist countries that Soviet units on the Sino-Soviet border would adopt the same "defensive structure" as their counterparts in Eastern Europe.

Claimed that several combined-arms armies and "a great number" of divisions would be eliminated.

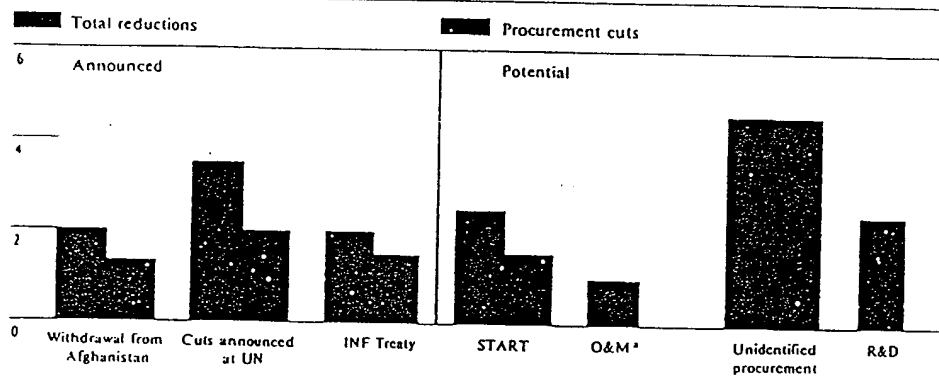
The Soviets may reduce the number of military districts from 16 to 10 in order to streamline the command and control structure as forces are reduced. If the Soviets are abandoning their efforts to develop a theater-strategic offensive capability in favor of a more

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Figure 4
USSR: Sources of Reductions in
Military Spending

Billion 1982 rubles



* Reduction in operations and maintenance costs resulting from additional force structure cuts.

defensive orientation, there is room for far-reaching force reductions in the future. A smaller force structure and more efficient organization would produce additional savings in operations and maintenance in the near term and could pave the way for eventual reductions in weapons procurement.

Reductions in the Soviet Navy may also be in store. The Soviets recently contracted to scrap some of their older naval ships and submarines. Reportedly, 21 naval destroyers and 60 Whiskey-class submarines will be scrapped. Andrey Kozhev also hinted at naval reductions in an October 1988 article. He wrote, "The forces intended as a military presence far beyond our land and maritime borders should also, it would seem, be examined from the point of view of sufficiency and profitability," adding that the costs of such forces were compounded by their adverse political impact.

Force structure reductions beyond those announced at the UN and more efficient organization would allow the Soviets to realize some additional O&M savings. Without additional information on the size and composition of additional reductions that the Soviets are considering, estimates of the amount of O&M savings that would result are subject to much uncertainty. For illustrative purposes, however, we have assumed that such additional O&M savings could total about 1 billion rubles per year, or about 5 percent of Soviet O&M expenditures during 1988.

Procurement. Even after the savings that could come from the Soviets' existing commitments and from a future START accord are taken into account, we estimate that Moscow would still need to reduce procurement by about another 5 billion rubles to

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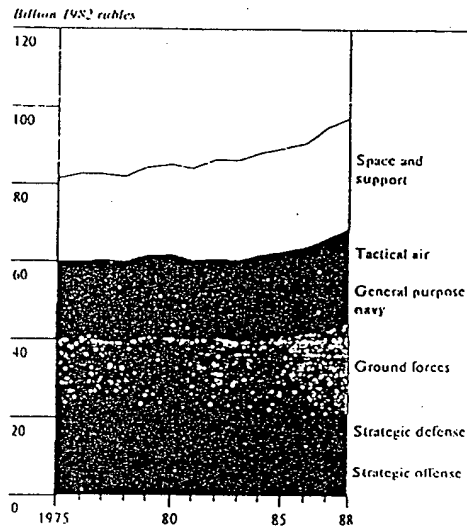
Reducing the Extended Defense Burden

In addition to expending resources on traditional categories of defense activities, Moscow seeks to enhance national security and expand Soviet influence abroad through a variety of foreign policy instruments, including the provision of economic and military aid. The costs associated with these activities are sometimes referred to as the "extended burden of defense." The Gorbachev regime is trying to reduce costs in this area as well, urging many of its Third World allies to find ways to use Soviet economic aid more efficiently and pressing some of them—notably Cuba, Angola, and Vietnam—to show flexibility in seeking to resolve military conflicts in which they are involved.

Settlement of regional conflicts involving Soviet clients could ease the Soviets' military aid bill. We estimate that about 40 percent of Soviet military deliveries to Third World countries—and almost all military deliveries to its Communist clients—are made in the form of grants, and many of the remaining credits will never be repaid. In 1988, Soviet military deliveries to clients fighting insurgencies totaled over \$7 billion, most of which is unlikely to be repaid. While we expect the Soviets to continue to provide military support to these countries even after the conflicts in which they are currently involved are settled, the amount will probably decline once hostilities end. Such savings would represent a reduction in the Soviets' "burden of empire," which, though not included in traditional definition of defense expenditures, can be considered part of the USSR's "extended defense burden." At the same time, the Soviets are trying to expand arms exports to "paying" customers.

achieve the promised 19.5-percent procurement cut. Reductions of this magnitude probably could not be limited to any particular service or mission. Specific cuts are likely to be chosen for the resources they would save, their potential political impact, and their consistency with Soviet force restructuring goals. Likely candidates include systems that would probably be reduced as part of a future arms accord, that

Figure 5
USSR: Military Investment and
Operating Expenditures by Mission, 1975-88



are peripheral to the Soviets' main missions, or that do not meet the requirements of the Soviets' more defensively oriented doctrine. While reduced force structure would ease the demand for some types of weapons and equipment, large procurement cuts are likely to retard Soviet force modernization.

There is evidence that some decisions on additional reductions have already been made. For example, by 1988 the Soviets had decided to deploy fewer of their newest silo-based ICBMs—the SS-18 Mod 5 and the SS-24 Mod 2—than they originally intended. Scaling back deployment of these two ICBM systems would allow the

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Soviets to avoid the cost of producing missiles and converting silos that would have to be dismantled under a future START agreement. Moreover,

He told [] late 1988 that if a START treaty is not completed in the next few years, economic imperatives would require Moscow to reduce strategic offensive forces unilaterally.

A reduced force structure and a restructuring of remaining general purpose forces to give them a more defensive character could eventually result in procurement savings. Although Chief of the General Staff Mikhail Moiseyev has indicated that restructuring will require increased procurement of some types of weapons—for example, antitank and air defense systems—overall spending for general purpose forces could still decline as procurement of tanks and other equipment is reduced, especially if additional reductions in force structure occur.

Shevardnadze's November 1988 announcement that the Soviet Union had stopped producing chemical weapons provides an example of the application of both economic and political criteria in evaluating the utility of weapon programs. In his July 1988 speech to the MFA, Shevardnadze charged that the USSR's chemical weapons program had been adopted without proper consideration of the "colossal" costs it entailed; that the program caused "great damage" to the country's foreign policy image; and that chemical warfare would be more dangerous to the Soviet Union than to the United States.

Finally, in addition to the scrapping of old naval ships and submarines, reduced procurement of new ships may also be in store. An article in the Soviet Union's major shipping newspaper said that manpower and facilities in shipyards building naval units will be freed for other uses as a result of the impending reduction of the Soviet armed forces.

RDT&E. We believe reductions in military RDT&E—which accounted for an estimated 20 percent of total Soviet military expenditures in 1988—are also likely. Karpov has claimed that the budget cuts will include reductions in military research and

development, and the chairman of the Military Industrial Commission has said that military research and development facilities and personnel are being enlisted in the effort to modernize the food-processing industry.

Soviet military RDT&E came under considerable public criticism during 1988. Yazov and Army Gen. V. M. Shabanov, Deputy Defense Minister for Armaments, chastised Soviet weapon designers for being too conservative, "duplicating what had already been created" and neglecting "new and nontraditional solutions in the development of armaments and military hardware." Moreover, Yazov told a gathering of military designers and industrialists that "the emphasis on quantitative indicators is becoming not only increasingly costly, but less and less effective in both military-political and purely military terms."

Deputy Foreign Minister (now First Deputy Foreign Minister) Aleksandr Bessmertnykh criticized Soviet military R&D on quite different grounds, taking the military to task not for being too conservative, but for undertaking R&D programs prematurely. According to Bessmertnykh, hasty attempts to offset virtually any Western military development—including, he claimed, R&D programs that were merely bluffs and posed no real threat—caused the armed forces to waste money on military programs that "frequently lead to technical and strategic dead ends." In the future, Bessmertnykh said, decisions on military R&D and procurement must be "substantiated from a strictly economic point of view."

Taken together, these critiques suggest that future Soviet RDT&E expenditures may be concentrated on a smaller number of projects, but that those projects funded may be more technologically ambitious than was typical in the past. Projects that would result in only minor improvements might be rejected as simply not being worth the effort. At the same time, technologically ambitious projects designed to counter very distant or only hypothetical threats might also be rejected.

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Making Soviet military R&D more productive will not be easy, however, especially given the leadership's emphasis on qualitative rather than quantitative force improvements. Moreover, the party's emphasis on qualitative improvements in defense may conflict with the pressure the regime is also exerting on defense industry to transfer high-quality equipment and skilled labor to civil projects. The push for higher quality will also exacerbate the trend of rising unit costs of weapons, so that even if older weapons are replaced on a less than 1-for-1 basis, spending may not decline.

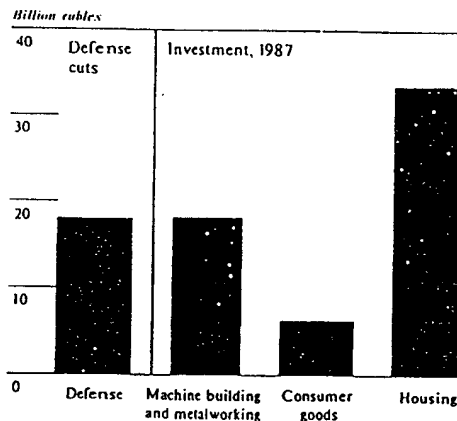
Economic Significance of the Reductions

Defense spending cuts of the size Gorbachev promised in his remarks to the Trilateral Commission, if sustained throughout the 13th FYP period, could free enough resources to provide a meaningful boost to the civil economy, especially if pursued in conjunction with other political and economic reforms. A 14.2-percent reduction in our estimate of Soviet defense spending in 1988—18 billion rubles—is almost equal to Soviet investment in the critical machine-building sector, over half the amount invested in housing, and about three times the level of investment in the consumer goods industry in 1987 (see figure 6).

While the leadership has stated that the resources freed by the promised defense spending cuts are to be devoted primarily to the production of civilian goods, reduced defense spending could also help reduce the budget deficit. Under Gorbachev, the Soviet state budget deficit has risen from about 15 billion rubles in 1985 to over 80 billion rubles in 1988, exacerbating inflationary pressures. Gorbachev and others have argued that defense cuts are an essential element in attacking the deficit. Although current Soviet proposals for bringing the deficit under control probably will fall far short of balancing the state budget, reducing state spending by reducing defense outlays could help ease the level of deficit financing required.*

* See forthcoming DI Intelligence Assessment Implications of a Surging Soviet Budget Deficit.

Figure 6
USSR: Comparison of Promised Defense Spending Cuts With Selected Investment



The Soviets themselves have indicated some of the economic benefits they hope to obtain from the force reductions announced at the UN. Maj. Gen. Yuriy Markelov, a representative of the General Staff, noted that general purpose equipment being withdrawn "such as tow trucks, cranes, motor vehicles, river-crossing means, and individual units and assemblies can be utilized successfully in the national economy." Similarly, Maj. Gen. Yuriy Lebedev, deputy chief of the General Staff's Treaty and Legal Directorate, claimed that engines from tanks to be destroyed will be transferred to the civil economy. Gorbachev said that the remaining 5,000 tanks would be converted to tractors and training vehicles.

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Military manpower reductions would also benefit the economy, provided they involved combat troops and not railroad or construction units that are already engaged in considerable civil economic activity. The release of officers, many of whom are technically trained, would provide more skilled workers to civil industry. In addition, agriculture, construction, and the trade and services sectors face labor shortages that could benefit from an influx of even less skilled workers. A smaller armed forces could also allow an increase in deferments of university students whose skills are needed in the civil economy.

The biggest savings, however, will come not from manpower savings or from the conversion of existing equipment to civil use, but from reductions in future military R&D and procurement. Reducing weapon production would free up defense production capacity and curb the military's demand for high-quality metals, computers, and microelectronics needed in the civil economy. In addition, some skilled workers in defense industries could be transferred quite easily to civil production, where they are in great demand.

According to public statements by several Soviet defense-industrial managers, some military-civil trade-offs are already being made. Premier Ryzhkov claimed in March that the ratio of military to civilian output in the defense-industrial sector will shift from 60:40 to 50:50 by 1991 and to 40:60 by 1995. The head of the Military-Industrial Commission, Igor Belousov, has announced that plans to modernize the food-processing industry call for retooling 38,000 factories and constructing 29,000 new ones by 1995. Defense industry, he added, would provide almost half the funds for new equipment installed. He said that 250 defense plants and 200 design bureaus currently involved in military-related research already have been enlisted in the effort, and some defense plants still under construction are being converted to civil production. Asked whether the conversion of defense plants to civil tasks would weaken defense, Belousov said that Soviet defense policy "must result in arms deliveries being reduced no further than the level of sensible and reliable sufficiency for defense"—implying that some cutback in weapons production will be necessary to meet civil goals. Similarly, Lev Ryabev,

Minister of Medium Machine Building—the ministry responsible for producing nuclear weapons—claimed in November 1988 that in his ministry "a number of military programs are being cut, and the funds previously allocated for their development will be channeled toward peaceful purposes—specifically, toward the development of machine building for the dairy industry."

The Soviets will almost certainly encounter some difficulties in trying to transfer resources from the military to the civil sector. Transferability problems are greatest when attempting to shift portions of the existing stock of resources already used or planned for use in the defense sector. Human and material savings that can be realized from eliminating systems covered by the INF Treaty, for example, are limited to some extent by short-term constraints on personnel mobility, the need for retraining and retooling, and the costs of eliminating the systems themselves. Shifting resource commitments at the planning stage is much easier. Moreover, industrial resources and plant capacity used to manufacture tanks and other conventional weapons are frequently easier to transfer to the civilian economy than are resources and plant capacity used in producing strategic weapons. For example, plant capacity previously earmarked for land arms production would be especially adaptable to the production of vehicles and machinery needed by the transportation and construction sectors of the economy.

How Far Can Gorbachev Go?

If the Soviets meet the two-year timetable they have set for implementing the announced force and spending reductions, the cuts will be in place by January 1991, when the 13th FYP begins (see inset). It will probably be several years, however, before the economic benefits of the reductions can be fully realized. Moreover, the returns from the transferred resources could be disappointing to the leadership if the waste and inefficiency that permeate Soviet civil industry result in inefficient utilization of the resources. For

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Monitoring the Reductions

Monitoring whether and how the Soviet Union reduces its forces and defense expenditures over the next two years will be critical to understanding Gorbachev's defense strategy and economic priorities. We are likely to receive early signs of any large cuts in weapon procurement or major changes in military activity. Measuring changes in defense spending precisely—for example, determining whether spending has been cut by 5 percent, 10 percent, or more—will be more difficult, and perhaps impossible:

- Our best evidence is likely to come from the Soviets themselves, who we believe will trumpet any cut in order to gain political mileage. The Soviets have already said they intend to allow some Westerners to observe the force withdrawals announced at the UN.

- [] will probably allow us to monitor Soviet force reduction and restructuring and to detect the conversion of large weapons manufacturing facilities from military to civilian production.

[] [] []

- Release of more detailed defense spending information by the Soviets would not be sufficient by itself to confirm whether the Soviets have indeed reduced

defense spending. Official Soviet defense spending data, like official Soviet national economic data, are likely to be subject to a number of definitional and methodological uncertainties, and possibly deliberate distortions. Consequently, independent assessments of Soviet defense activities will be needed. []

If the Soviets were to decide to reverse the transfer of resources to the civil sector and return to higher levels of defense production, it would probably take at least as long to reestablish defense lines as it had to convert them in the first place, primarily because of the difficulty of reestablishing supply networks for components meeting higher military specifications. Despite these difficulties, if the Soviets felt it necessary to reverse course on a large scale and were unconcerned about the effect on the civil economy, we believe they could do so in a fairly short period of time. []

these reasons, and because Soviet economic problems are likely to persist, the Soviets will almost certainly continue to have strong economic incentives to keep defense spending down throughout the 13th FYP, despite the projected resource shift. Gorbachev could even push for larger reductions, but they would probably give rise to considerable political controversy and military concern

How far Moscow would be willing to go in reducing defense outlays will depend on:

- The strength of the leadership's commitment—in the face of a mounting budget deficit and a stagnating economy—to modernizing civil industry.

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- The impact of the released resources on economic performance.
- The extent to which reductions eventually are reciprocated by the West.
- The leadership's perception of the prospects for improving relations with the United States, Western Europe, and China.
- Gorbachev's overall political health and the strength of leadership consensus in support of his national security policies.

Soviet leaders probably would anticipate that an obvious failure to carry out at least some of the reductions promised would significantly damage the USSR's image abroad and undermine the political and economic benefits that the initiatives were intended to bring. Although Gorbachev seems to have the power to make good on his commitments, Soviet plans to implement the reductions could be derailed if the leadership perceived a significant deterioration in the internal or external political climate over the next two years. The Soviets have contended that the force reductions are possible in part because the threat of war has declined. If the leadership concluded that external threats were significantly increasing, it might renege on the reductions. Domestic political threats to Gorbachev's own position could also cause him to retrench. Gorbachev appears to have been the driving force behind the reductions, and, if he were to be removed from power, a successor regime might decide to reverse course, especially if dissatisfaction with Gorbachev's national security policy were an important factor in a decision to oust him. A successor regime, however, would still face the serious economic problems that convinced Gorbachev of the need to cut back on defense.

Defense savings alone will not solve Gorbachev's economic problems. The Soviet economy needs not only additional investment, labor, and material resources, but also more realistic prices, improved incentives, freer access to information, better management skills, and a greater reliance on market forces—changes that have little to do with the level of defense spending. Implementing Gorbachev's strategy to manage the defense budget is thus only one of many challenges the regime faces as it tries to spur economic growth. The real value of the planned cutbacks in defense outlays is that they give Gorbachev some additional room for maneuver in meeting these other challenges.

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